

Message Text

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ACTION EA-09

INFO OCT-01 IO-11 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 EB-07 CIEP-01 TRSE-00 STR-04 OMB-01 CEA-01

COME-00 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01 ACDA-05

AGR-05 FEA-01 ERDA-05 /115 W
----- 043308

R 200031Z JAN 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5050

INFO CINCPAC

USDEL MTN GENEVA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 3 SEOUL 0429

CINCPAC FOR POLAD, PASS TO AMBASSADOR SNEIDER

E.O. 11652: GDS

TAGS: EGEN, EFIN, MASS, MPOL, MTN, KS

SUBJECT: KOREAN BALANCE OF PAYMENTS SITUATION IMPROVED BY STRONG
1975 SECOND HALF

REF: A. SEOUL 0375, DTG 160443Z JAN 76, B. SEOUL 0050, DTG
050835Z JAN 76, C. SEOUL 0685, DTG 310806Z JAN 75

SUMMARY: A STRONG SECOND HALF EXPORT RECOVERY HAS IMPROVED
KOREA'S 1975 BALANCE OF PAYMENTS (B.O.P.) SITUATION AND
BUOYED THE OUTLOOK FOR 1976. CURRENT ESTIMATES PLACE THE
1975 CURRENT ACCOUNT DEFICIT IN THE \$1,850 MILLION TO
\$1,950 MILLION RANGE, DESPITE A GAP OF \$1,550 MILLION
RECORDED OVER THE FIRST SIX MONTHS. PLANNERS SEE THE
DEFICIT NARROWING TO \$1,500 MILLION IN 76 AND PLACE
HIGH PRIORITY ON FINANCING THAT DEFICIT ENTIRELY FROM
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LONG- AND MEDIUM-TERM CAPITAL INFLOWS. THE MAJOR

UNCERTAINTY IN 1976 REVOLVES AROUND PENDING DECISIONS
ON THE MAGNITUDE AND FINANCING OF DEFENSE IMPORTS. END SUMMARY

1. THIS MESSAGE IS THE SECOND OF THE THREE MESSAGES
ON THE KOREAN ECONOMY REFERRED TO IN REF A AND PROVIDES
ADDITIONAL DETAILS ON EXTERNAL DEVELOPMENTS.

2. 1975 RESULTS: A STRONG SECOND HALF EXPORT RECOVERY,
COMBINED WITH FIRM IMPORT RESTRAINT, HAS IMPROVED
KOREA'S B.O.P. IN THE FINAL SIX MONTHS OF 1975. AFFIR
RECORDING A STAGGERING CURRENT ACCOUNT DEFICIT OF
\$1,550 MILLION (REVISED) THROUGH JUNE 30, CURRENT
ESTIMATES NOW PLACE THE FULL YEAR DEFICIT IN THE \$1,850
MILLION TO \$1,950 MILLION RANGE, OR SLIGHTLY BETTER THAN
THE \$2,023 MILLION DEFICIT FOR 1974. THE DEFICIT ON
VISIBLE TRADE ACCOUNT IMPROVED BY ROUGHLY \$400 MILLION
OVER THE \$1,937 MILLION FIGURE OF A YEAR AGO, BUT WAS
LARGELY OFFSET BY ROUGHLY EQUAL DETERIORATION IN THE
NET SERVICES AND TRANSFER DEFICIT. INCREASED INTEREST
PAYMENTS ACCOUNT FOR ABOUT 55 PERCENT OF THAT DETERIORATION.

3. EXPORTS: ROKG PLANNERS ARE USING A WORKING ESTIMATE
OF \$5,064 MILLION FOR THE 1975 EXPORT TOTAL, BUT MORE
RECENT DATA INDICATE A FINAL FIGURE OF ABOUT \$5,020
MILLION. THE LATTER TOTAL REPRESENTS AN INCREASE OF
11 PERCENT IN VALUE TERMS AND A RISE OF APPROXIMATELY
20 PERCENT IN EXPORT VOLUME OVER 1974. CONSIDERING THE
WEAK FIRST HALF AND THE DEPRESSED STATE OF WORLD TRADE,
THE VOLUME INCREASE REFLECTS A TRULY EXCEPTIONAL
PERFORMANCE IN THE FINAL HALF OF THE YEAR. ON A VALUE
BASIS ALONE, SECOND HALF EXPORTS OF \$2,950 MILLION ARE
EQUIVLAENT TO A SEASONALLY ADJUSTED GAIN OF 20 PERCENT
OVER THE JANUARY-JUNE TOTAL, OR 66 PERCENT ON AN ANNUAL
RATE BASIS.

4. THE FACT THAT A REBOUND IN CONSUMER DEMAND PACED
THE RECENT UPTURNS IN THE U.S. AND OTHER INDUSTRIAL ECONOMIES
WAS A MAJOR FACTOR IN KOREA'S SECOND HALF EXPORT SURGE.
THE DECEMBER 1974 DEVALUATION OF THE WON PERMITTED
KOREAN EXPORTERS TO CUT PRICES IN HIGHLY COMPETITIVE
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MARKETS AS DEMAND BEGAN TO REAPPEAR. FINALLY, STRONG
GOVERNMENT PRESSURE ON EXPORTERS TO PUSH TOWARD THE
OFFICIAL 1975 EXPORT TARGET OF \$6,000 MILLION MOTIVATED
EXPORTERS TO SLICE PROFIT MARGINS TO GET NEW ORDERS.
(BELEAGUERED MINISTRY OF COMMERCE & INDUSTRY (MCI)
OFFICIALS, CHARGED WITH RESPONSIBILITY FOR MEETING THE
EXPORT TARGET, HAVE MANAGED TO INCLUDE ENOUGH ADVANCE
COUNTING TO COME UP WITH A 1975 EXPORT TALLY OF

\$5,425 MILLION IN THEIR UNOFFICIAL COUNT. HAVING SUFFERED ENOUGH THIS YEAR, THESE SAME OFFICIALS ARE NOW URGING A 1976 EXPORT TARGET OF \$6.0 TO \$6.2 BILLION, WHICH WOULD REPRESENT AN ACTUAL DECLINE FROM THE 1975 SECOND HALF PACE IF THEY BELIEVED THEIR OWN TOTAL OF \$3,268 MILLION FOR THE PERIOD.) OUR ANALYSIS OF OFFICIAL CUSTOMS EXC RT DATA THROUGH OCTOBER INDICATES THAT THE EXPORT RECOVERY HAS BEEN STRONGEST IN THE U.S. MARKET, BUT THAT IT INCLUDES UPTURNS IN JAPAN AND MOST OTHER MARNETS AS WET AS CONTINUED EXCELLENT PERFORMANCES IN EUROPE AND THE MIDDLE EAST. WHILE OVERSHADOWED BY THE EXCEPTIONALLY STRONG REBOUND FOR TEXTILE EXPORTS, VIRTUALLY ALL MAJOR CATEGORIES OF KOREAN EXPORTS HAVE TRENDED UPWARDS SINCE THE FIRST QUARTER OF THE PAST YEAR.

5. IMPORTS: IMLBRT RESTRAINT IN THE FINAL SIX MONTHS WAS NO LESS IMPRESSIVE, EVEN THOUGH IT OWED SOMETHING TO AN ROKG DECISION TO USE UNADJUSTED CUSTOMS CLEARANCE DATA. PREVIOUSLY THE BANK OF KOREA (BOK) ADJUSTED CUSTOMS DATA TO RECONCILE THEM WITH DATA ON FOREIGN LOAN AND INVESTMENT ARRIVALS REPORTED BY TME ECONOMIC PLANNING BOARD (EPB). THIS YEAR THE BOK RELEASED PRELIMINARY B.O.P. DATA SHOWING A CURRENT ACCOUNT DEFICIT OF \$1,955 MILLION THROUGH SEPTEMBER, INCLUDING \$293 MILLION IN FOREIGN LOAN AND INVESTMENT IMPORTS NOT INCLUDED IN THE CUSTOMS COUNT. IT WAS THEN DISCOVERED THAT THE BOK ADJUSTMENT TECHNIQUE RESULTED IN EXTENSIVE DOUBLE COUNTING AND NO LOGICAL JUSTIFICATION FOR OVER-'RIDING THE CUSTOMS DATA COULD BE FOUND WITH RESPCET TO THE REMAINING DISCREPANCY. WE BELIEVE USE OF THE UNADJUSTED DATS IS BETTER (SEE PARA 6, REF C FOR AN EARLIER CONFIDENTIAL

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DISCUSSION OF THE PROBLEM). THE REVISED TOTAL FOR IMPORTS (F.O.B.) AND THE CURRENT ACCOUNT DEFICIT FOR THE FIRST THREE QUARTERS ARE \$4,812 MILLION AND \$1,652 MILLION RESPECTIVELY WHILE COMPARABLE TOTALS FOR THE FIRST HALF ARE NOW \$3,453 MILLION AND \$1,550 MILLION IRESPECTIVELY.

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INFO OCT-01 IO-11 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 ACDA-05

AGR-05 FEA-01 ERDA-05 /115 W
----- 043881

R 200031Z JAN 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5051

INFO CINCPAC

USDEL MTN GENEVA

AMEMBASSY TAIPEI

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6. THE CURRENT ESTIMATE SHOWS A FULL YEAR 1975 CUSTOMS CLEARANCE IMPORT COUNT OF JUST OVER \$6,400 MILLION, F.O.B. AND \$7,050 MILLION, C.I.F. PLANNERS HAVE ADDED AN ARBITRARY TOTAL OF \$100 MILLION TO THAT ESTIMATE TO COVER DEFENSE IMPORTS NOT RECORDED BY CUSTOMS (RECORDED DEFENSE IMPORTS ARE LIMITED TO INDIRECT IMPORTS, E.G., COTTON USED IN MANUFACTURING UNIFORMS ETC.). AGAIN, WITH MORE CURRENT DATA TRICKLING IN, THE ACTUAL C.I.F. TOTAL IS NOW EXPRECTED TO APPROXIMATE \$7,230 MILLION, INDICATING AN F.O.B. FIGURE OF \$6,500 TO \$6,580 MILLION, EXCLUDING NON-RECORDED DEFENSE IMPORTS. EVEN WITH THESE HIGHER FIGURES, REFLECTING AN UTPTURN IN NOVEMBER AND EECEMBER IMPORTS, SECOND HALF IMPORTS WILL BE DOWN ABOUT 14 PERCENT ON A SEASONALLY ADJUSTED BASIS FROM THE INFLATED JANUARY-JUNE TALLY, REDUCED GRAIN IMPORTS, A DRAWDOWN OF INVENTORIES, SAGGING DEMAND FOR IMPORTED CAPITAL GOODS AND TIGHTER CREDIT POLICIES, REINFORCED BY HIGHER IMPORT DEPOSIT REQUIREMENTS AND
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TIGHTER IMPORT LICENSING ALL CONTRIBUTED TO SHAVING THE SECOND HALF IMPORT TOTAL. THE FULL YEAR IMPORT VOLUME FIGURE IS NOW EXPECTED TO BE DOWN ABOUT 3 PERCENT

FROM A YEAR EARLIER, DESPITE THE 20 PERCENT EXPANSION IN EXPORT VOLUME AND AN ESTIMATED 7.4 PERCENT GROWTH IN REAL GNP.

7. FINANCING: THE SECOND HALF RECOVERY ON THE CURRENT ACCOUNT SIDE GREATLY EASED FINANCING STRAINS WHICH THREATENED TO BECOME ACUTE AS THE FIRST HALF DEFICIT MOUNTED. NET CAPITAL INFLOWS FOR 1975 ARE NOW ESTIMATED AT ABOUT \$2,400 MILLION, WHICH HAS PERMITTED A CONFIDENCE-BUILDING RISE IN GROSS FOREIGN EXCHANGE RESERVES TO \$1,536 MILLION AS OF DECEMBER 31 (PRELIMINARY FIGURE), UP \$487 MILLION SINCE END-1974 AND UP \$656 MILLION OVER THE LOW POINT OF \$880 MILLION REACHED IN MARCH 1975. THE NEED FOR SHORT-TERM CREDIT, OTHER TH, FOR FINANCING THE ROLLOVER OF OUTSTANDING DEBT, LARGELY DISAPPEARED AFTER MID-YEAR. WITH AN IST FROM A SUBSTANTIAL SHIFT OF SHORT-TERM LIABILITIES FROM BANK REFINANCING TO PRIVATE TRADE CREDITS (THE FORMER ARE EXPECTED TO SHOW A NET INCREASE OF ROUGHLY \$180 MILLION FOR THE YEAR COMPARED TO A NET RISE OF APPROXIMATELY \$636 MILLION FOR THE LATTER), KOREA'S NET FOREIGN ASSET POSITION HAS IMPROVED STEADILY SINCE MAY. AFTER DETERIORATING RAPIDLY TO MINUS \$691 MILLION BY END APRIL 1975 FROM A MINUS \$150 MILLION POSITION AT END OF 1974, NET FOREIGN ASSETS, INCLUDING LONG TERM LIABILITIES, ENDED THE YEAR AT MINUS \$289 MILLION (PRELIMINARY FIGURE). THE DECEMBER 31 POSITION OF NET FOREIGN ASSETS EXCLUDING LONG-TERM LIABILITIES IS NOT YET AVAILABLE BUT SHOULD BE PLUS \$350 TO \$400 MILLION AS COMPARED TO PLUS \$297 MILLION A YEAR EARLIER. THE ROKG NOW USES THE LATTER FIGURES IN DISCUSSIONS WITH BANKERS. (NOTE: NET FOREIGN ASSET FIGURES ARE CONSIDERED SENSITIVE.)

8. IN THE MEANTIME, WITH SOME OF THE SECURITY CONCERNS RELATED TO THE FALL OF INDOCHINA FADING AND IMPRESSED BY KOREA'S SECOND HALF PERFORMANCE, FOREIGN BANKS HAVE BEEN EXPANDING EXISTING LINES-OF-CREDIT TO KOREA IN RECENT WEEKS, FURTHER ENHANCING THE OVERALL SHORT-TERM CONFIDENTIAL

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POSITION. THE PREMIER EXAMPLE OF THIS IS CHASE MANHATTAN, WHOSE BOARD OF DIRECTORS, AFTER RECEIVING A POSITIVE REPORT FROM A SENIOR CHASE ANALYST WHO VISITED KOREA IN THE WAKE OF THE BRIEF SCARE TOUCHED OFF BY NEWS STORIES, VOTED TO EXPAND CHASE'S LINES-OF-CREDIT TO KOREA BY WHAT THE LOCAL REP DESCRIBED AS A "SUBSTANTIAL" AMOUNT. EVEN WITH THE LAST HALF RECOVERY, HOWEVER, THE NET INCREASE IN SHORT-TERM DEBT FOR 1975 WAS ON THE ORDER OF \$950 MILLION ON TOP OF AN INCREASE OF ALMOST THAT MAGNITUDE IN 1974.

9. NET LONG-AND MEDIUM-TERM CAPITAL INFLOWS, INCLUDING IMF CREDITS AND BANK LOANS, ROSE BY ABOUT \$350 MILLION TO APPROXIMATELY \$1,500 MILLION. STEPPED UP IBRD ACTIVITY, INCLUDING A \$100 MILLION PROGRAM LOAN, AND THE RESUMPTION OF U.S. PL-480 SHIPMENTS WERE THE PRINCIPAL ELEMENTS IN INCREASING NET PUBLIC CAPITAL ARRIVALS FROM \$265 MILLION TO ROUGHLY \$500 MILLION. NET COMMERCIAL LOAN ARRIVALS ARE ESTIMATED AT \$610 MILLION, UP \$285 MILLION OVER 1974, HOWEVER, EQUITY INVESTMENT ARRIVALS FELL BY OVER 50 PERCENT TO \$55 MILLION. THE DRAWING OF THE FINAL \$100 MILLION OF THE \$200 MILLION SYNDICATED BANK LOAN ARRANGED IN LATE 1974 WAS THE SINGLE 1975 ARRIVAL OF THAT TYPE OF FINANCING, AS COMPARED TO THE EXCEPTIONALLY HIGH GROSS ARRIVAL FIGURE OF \$300 MILLION IN 1974. DESPITE THIS SUBSTANTIAL INCREASE IN DEBT OUTSTANDING, THE DEBT-SERVICE RATION (DEBT OF ONE YEAR OR MORE MATURITY) IS EXPECTED TO SHOW ONLY A SMALL RISE OF 0.4 PERCENTAGE POINTS TO ABOUT 13.2 PERCENT.

10. OUTLOOK FOR 1976 - ROKG FORECAST: WHILE THEIR CONFIDENCE WAS BUOYED BY THE SECOND HALF 1975 PERFORMANCE, ROKG POLICY MAKERS AND PLANNERS ALIKE WERE SOBERED BY THEIR DIFFICULTIES IN THE FIRST HALF. UNFAVORABLE NEWS STORIES, ALTHOUGH NOW CONSIDERED TO BE LARGELY DISCOUNTED BY ANYONE WHO HAS BOTHERED TO TAKE A SECOND LOOK, SERVED MOREOVER TO REMIND THE ROKG THAT MAINTAINING THE CONFIDENCE OF THE FOREIGN FINANCIAL AND INVESTMENT COMMUNITY IS OF CRITICAL IMPORTANCE TO KOREA'S ECONOMIC FORTUNES. IN DISCUSSION 1976 PLANS, ROKG
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OFFICIALS HAVE TAKEN PAINS TO EMPHASIZE THAT THE B.O.P. AND INFLATION TARGERS WILL RECEIVE TOP PRIORITY IN 1976,N WITH THE GROWTH TARGET BEING SACRIFICED IF A CHOICE MUST BE MADE.

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FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 ACDA-05

AGR-05 FEA-01 ERDA-05 /115 W
----- 043634

R 200031Z JAN 76

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 5052

INFO CINCPAC

USDEL MTN GENEVA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 3 OF 3 SEOUL 0429

CINCPAC FOR POLAD, PASS TO AMBASSADOR SNEIDER

11. WHEN RELEASED, THE OVERALL RESOURCES BUDGET (ORB) IS EXPECTED TO SET A KEY B.O.P. TARGET OF ACHIVING A BALANCE OR SMALL SURPLUS ON BASIC ACCOUNT WITH THE PROJECTED DEFICIT ON CURRENT ACCOUNT SHOWING A REDUCTION TO JUST UNDER \$1,500 MILLION.(A BALANCE ON BASIC ACCOUNT WOULD MEAN THAT THE CURRENT ACCOUNT DEFICIT IS FINANCED ENTIRELY BY NET LONG-AND MEDIUM-TERM CAPITAL.) BARRING LAST MINUTE CHANGES, THE ORB FORECAST WILL SET A TARGET OF \$6,500 MILLION FOR EXPORTS WITH IMPORTS PROJECTED AT \$7,410 MILLION, F.O.B. AND \$8,143 MILLION C.I.F. THE RESULTING VISIBLE TRADE DEFICIT OF JUST OVER \$900 MILLION WOULD BE LESS THAN HALF THE RECORD GAP OF \$1,947 MILLION RECORDED IN 1974 AND WOULD REPRESENT AN IMPROVEMENT OF SOME \$500 TO \$600 MILLION OVER THE 1975 DEFICIT. AN ANTICIPATED INCREASE FROM \$155 MILLION TO \$557 MILLION IN NET SERVICES AND TRANSFERS COMPRISES THE REMAINDER OF THE PROJECTED CURRENT ACCOUNT DEFICIT (INTEREST AND FREIGHT
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AND INSURANCE PAYMENTS WILL ACCOUNT FOR MOST OF THE INCREASE).

12. THE SAME FORECAST ANTICIPATES NOT LONG-AND MEDIUM-TERM INFLOWS (EXCLUDING IMF CREDITS AND BANK-TO-BANK CASH LOANS OTHER THAN TO THE KOREA DEVELOPMENT BANK) OF \$1,493 MILLION, YEILDING A SURPLUS OF \$22 MILLION ON BASIC ACCOUNT. NET IMF CREDITS OF \$117 MILLION AND NET BANK LOANS OF \$10 MILLION (CARRIED IN THE

MONETARY ACCOUNT CATEGORY IN THIS FORMAT) WILL PERMIT A RISE IN GROSS RESERVES OF \$100 MILLION AND A NET OUTFLOW OF SHORT-TERM CREDIT OF \$49 MILLION. NET FOREIGN ASSETS, INCLUDING LONG-TERM LIABILITIES, WILL DECLINE BY ROUGHLY \$90 MILLION, WHILE THE DEBT SERVICE RATIO WILL RISE TO ABOUT 13.9 PERCENT.

GQEM EVALUATION-CURRENT ACCOUNT FORECAST: ASSUMING THAT INFLATION IS HELD IN CHECK (OR ALTERNATIVELY THAT KOREA CAN DEVALUE WITHOUT TRIGGERING COMPETITIVE DEVALUATIONS BY SUCH COMPETITORS AS THE REPUBLIC OF CHINA), THE EXPORT TARGET APPEARS REASONABLE IF NOT CONSERVATIVE. WHILE THE TARGET ASSUMES A GAIN OF 22 PERCENT IN VOLUME AND 5 PERCENT IN PRICES (FOR A COMPOUNDED GAIN OF 28 PERCENT) OVER THE 1975 RESULTS, IT IS MUCH LESS IMPOSING WHEN VIEWED FROM THE LEVEL ALREADY REACHED IN THE STRONG 1975 SECOND HALF. IN THE CASE OF THE VITAL TEXTILE SECTOR, FOR EXAMPLE, EXPORTS AT THE SECOND HALF 1975 RATE AND A 5 PERCENT PRICE RISE WOULD YIELD A 29 PERCENT GAIN OVER THE FULL YEAR 1975 FIGURE. (INDUSTRY SOURCES REPORT PRICES FOR NEW TEXTILE ORDERS HAVE BEEN TRENDING UPWARD SINCE OCTOBER).

14. THE IMPORT GOAL MAY PROVE MORE TROUBLESOME. WHILE A \$300 TO \$400 MILLION NET REDUCTION IN GRAIN AND FERTILIZER IMPORT REQUIREMENTS APPEARS WARRANTED, THE TARGET ALSO IMPLIES THAT A TIGHT LID ON INVENTORIES OF IMPORTED MATERIALS IS KEPT THROUGHOUT 1976, BUT THAT WOULD BE DIFFICULT AS EXPORTS EXPAND AND PRESSURES GROW TO LIBERALIZE 1975 TEMPORARY IMPORT RESTRAINTS. ADDITIONALLY, THE TARGET FOR CAPITAL GOODS IMPORTS (VIRCUALLY UNCHANGED FROM 1975) THOUGH LOGICAL IN THE CURRENT INVESTMENT SLUMP, APPEARS INCONSISTENT WITH THE PROJECTED INCREASE OF 24 PERCENT IN GROSS FOREIGN LOAN AND INVESTMENT ARRIVALS (SEE PARAS 17 AND 17 BELOW). FINALLY, EPB PLANNERS HAVE TOLD US CONFIDENTIALLY THAT THE IMPORT PROJECTION INCLUDES SOME ALLOWANCE FOR DEFENSE IMPORTS OUTSIDE OF THE CUSTOMS COUNT, BUT THEY HAVE DECLINED TO GIVE A SPECIFIC FIGURE. WE DOUBT THEIR FIGURE COULD BE MORE THAN \$100

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TO \$200 MILLION AT MOST, WHICH WE BELIEVE IS MUCH TOO LOW.

15. ON BALANCE, THE IMPORT TARGET APPEARS TO BE TIGHT EVEN WITHOUT ALLOWANCE FOR DEFENSE IMPORTS. SINCE THE PROJECTED NET DEFICIT OF \$557 MILLION IN THE SERVICE AND TRANSFER ACCOUNTS LOOKS REALISTIC, HOLDING THE CURRENT ACCOUNT DEFICIT UNDER \$1,500 MILLION WILL DEPEND ON EXPORTS TOPPING THE \$6,500 MILLION TARGET.

16. EVALUATION - CAPITAL ACCOUNT FORECAST: CRUCIAL IN THE CAPITAL ACCOUNT TARGET IS THE PROJECTED INCREASE LOAN AND INVESTMENT ARRIVALS. DETAILS OF THE ESTIMATE ARE LACKING, OTHER THAN THE FACT IT IS COMPRISED OF \$830 MILLION FOR PUBLIC LOANS, \$830 MILLION FOR COMMERCIAL LOANS AND \$140 MILLION FOR EQUITY INVESTMENT. ESTIMATES

FOR COMPARABLE 1975 FIGURES ARE: PUBLIC LOANS --\$538 MILLION;
COMMERCIAL LOANS --\$862 MILLION; AND FOREIGN INVESTMENT-\$55 MILLION.

17 AN EARLIER ROKG PROJECTION SHOWED NEW PUBLIC LOAN COMMITMENTS IN 1975 OF \$1.2 BILLION, OR MORE THAN DOUBLE THE \$457 MILLION EXTENDED IN 1974. THAT FIGURE WAS INFLATED, HOWEVER, BY OVER \$400 MILLION IN NUCLEAR POWER PROJECTS, CHIEFLY THE CANADIAN CANDU PROJECT. PRESS ACCOUNTS HAVE SUBSEQUENTLY REFERRED TO AN ACTUAL 1975 COMMITMENT FIGURE OF \$650 MILLION, ALTHOUGH EPB SOURCES INSIST FULL YEAR DATA ARE NOT YET COMPLETE. THE SHARP INCREASE IN 1975 IBRD COMMITMENTS TO ABOUT \$398 MILLION (FROM A LOW \$85 MILLION IN 1974), THE INCLUSION OF SOME U.S. EX-IM LOANS IN THE PUBLIC LOAN CATEGORY (KOREA NATIONAL RAILROAD AND SEOUL NATIONAL UNIVERSITY HOSPITAL PROJECTS) AND THE ANTICIPATED EARLY SIGNING OF A \$70 MILLION LOAN FROM SAUDI FUND FOR DEVELOPMENT SHOULD PRODUCE A HIGHER GROSS ARRIVAL FIGURE FOR PUBLIC LOANS IN 1976, BUT THE PROJECTED RISE OF ALMOST \$300 MILLION APPEARS OPTIMISTIC. COMMERCIAL LOAN COMMITMENTS DROPPED FROM A RECORD \$1.1 BILLION IN 1974 TO ABOUT \$600 MILLION IN THE PAST YEAR, MAKING REPEAT OF THE 1975 ARRIVAL LEVEL OF \$862 MILLION IN 1976 LOOK DOUBTFUL. 1975 FOREIGN EQUITY INVESTMENT APPROVALS WERE ON THE ORDER OF \$190 MILLION, BUT THEY CONSISTED CHIEFLY OF A RELATIVELY FEW LARGE PROJECTS. RAPID PROGRESS ON A NUMBER OF THESE MAJOR PROJECTS WOULD BE REQUIRED TO ACHIEVE PROJECTED 1976 ARRIVALS OF \$140 MILLION. FINALLY, AS NOTED ABOVE, THERE IS AN INCONSISTENCY BETWEEN THIS PROJECTED LARGE INCREASE IN INVESTMENT AND LOAN ARRIVALS AND THE IMPORT ASSUMPTION OF VIRTUALLY NO CHANGE IN THE CONFIDENTIAL

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LEVEL OF CAPITAL GOODS IMPORTS. IN OTHER WORDS, IF THE CAPITAL INFLOW TARGET IS ACHIEVED, IT MAY WELL RAISE IMPORTS ABOVE THE GOAL.

18. A BROADER DEFINITION OF LONG/MEDIUM-TERM CAPITAL INFLOWS WOULD INCLUDE NET IMF CREDITS AND ALL BANK-TO-BANK CASH LOANS (SEE PARA 12 ABOVE). THE PROJECTED IMF FIGURE APPARENTLY ASSUMES EITHER FURTHER OIL CREDIT FACILITY DRAWINGS OR APPROVAL OF AN EXTENDED FUND FACILITY. THE FORMER IS UNLIKELY AND THE LATTER UNCERTAIN. ON THE OTHER HAND, THE BANK LOAN PROJECTION APPEARS TO UNDERSTATE LIKELY AVAILABILITIES SHOULD KOREA CHOOSE TO SEEK ADDITIONAL MEDIUM-AND LONG-TERM FINANCING OF THIS TYPE.

19. VIEWED IN THE OVERALL, IF DEFENSE IMPORTS ARE EXCLUDED, THE KEY GOAL OF A CURRENT ACCOUNT DEFICIT OF ABOUT \$1,500 MILLION, FINANCED ENTIRELY BY NET MEDIUM-AND LONG-TERM CAPITAL, APPEARS AMBITIOUS, BUT IS PROBABLY FEASIBLE IF THE DEFINITION OF LONG-AND MEDIUM-TERM CAPITAL IS BROADENED TO INCLUDE IMF CREDITS AND ALL BANK LOANS. HOWEVER, WE SEE NO MARGIN FOR TAKING ON THE ADDED BURDEN OF INCREASED DEFENSE IMPORTS WITHOUT FURTHER RESORT TO SHORT-TERM CREDIT, UNLESS THERE IS A RELATED INCREASE IN

LONG-TERM FINANCING. WE DOUBT THERE IS MUCH ROOM FOR FURTHER
EXPANSION OF SHORT-TERM DEBT, AS BANKING AND INVESTMENT COMMUNITY
CONFIDENCE SO RECENTLY RESTORED WOULD BEGIN TO ERODE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DATA, REPORTS, BALANCE OF PAYMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: izenbei0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SEOUL00429
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760020-0842
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760140/aaaabjua.tel
Line Count: 497
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 SEOUL 375, 76 SEOUL 50
Review Action: RELEASED, APPROVED
Review Authority: izenbei0
Review Comment: n/a
Review Content Flags:
Review Date: 13 JAN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 JAN 2004 by morefirh>; APPROVED <22 SEP 2004 by izenbei0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: KOREAN BALANCE OF PAYMENTS SITUATION IMPROVED BY STRONG 1975 SECOND HALF
TAGS: EGEN, EFIN, MASS, MPOL, KS, MTN
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006